

To the Recipient as Addressed

18 January 2017

Dear Sir/Madam

**WOOLDRIDGES AUSTRALIA PTY LIMITED
(IN LIQUIDATION) ACN 128 219 198 (“THE COMPANY”)**

ANNUAL REPORT

I refer to my annual report to creditors dated 26 November 2014 for the period 29 August 2013 to 28 August 2014. I now provide my annual report to creditors for the period 29 August 2014 to 28 August 2015.

This report should be read in conjunction with previous information provided to creditors. Pursuant to s508(1)(b)(i) of the Corporations Act 2001 (“the Act”) we do not intend to convene an annual meeting of creditors.

1. Key actions undertaken during the appointment

Detailed below is a summary of the key items actioned by the Liquidators during the period 29 August 2014 to 28 August 2015:

- Issued demands to creditors for the repayment of unfair preference payments made by the Company;
- Liaised with the creditors and the creditors’ solicitors regarding the claims;
- Prepared briefs to our solicitor regarding the claims and sought legal advice;
- Attended to settlement negotiations with the creditors’ solicitors;
- Recovered unfair preference payments in the amount of \$62,350;
- Prepared briefs to our solicitor regarding uncommercial transactions made by the Company to Fulcrum Capital Partners;
- Pursued Fulcrum Capital Partners for the recovery of the uncommercial transactions;
- Liaised with the Company creditors with respect to their enquiries and claims;
- Lodged half yearly accounts with ASIC; and
- Submitted a report to ASIC pursuant to Section 533 of the Act.

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2. Unfair preference payments

The Liquidators issued demands to 14 creditors (total value c. \$1.2m) with respect to preference payments that were made by the Company in the six (6) month period prior to the Voluntary Administration.

Three creditors with preference payments totalling \$642,648 settled their preference claims for \$62,350. I have determined not to pursue the remaining 11 creditors for the following reasons:

- A number of creditors have defended that the payments were received in good faith;
- A number of creditors have defended that at the time the payments were received, the creditor had no reasonable grounds for suspecting that the Company was insolvent; and
- The costs of pursuing certain creditors outweigh the benefits.

Accordingly, no further action will be undertaken with respect to the unfair preference payments.

3. Rights of action (Uncommercial transaction) - Fulcrum Loan

3.1. Introduction

Fulcrum Capital Partners Pty Limited (Fulcrum), as manager of the Fulcrum Capital Partners Fund No 1 LP (Fund 1), the Fulcrum Capital Partners Fund No 1 Trust A (Fund A) and the Fulcrum Capital Partners Fund No 1 Trust B (Fund B), (together, the Fulcrum Funds) advanced funds in the total amount of \$1,500,000 to the Education Works Group between July 2011 and August 2011.

The funds were advanced on the understanding that it comprised a loan to the Group including the Company. The funds were to be repaid on 30 June 2014 together with a payment for interest of 20% per annum capitalised daily.

My investigations have identified the following:

- On 13 January 2012, the Company advanced \$500,000 to Fund 1 in purported repayment of the Loan;
- On 13 January 2012, the Company advanced \$500,000 to Fund A in purported repayment of the Loan; and
- On January 2012, the Company advanced \$500,000 to Fund B in purported repayment of the balance of the Loan.

(each advance, together, comprises the Transaction).

At the time of the Transactions, the Directors (Mr Riley and Mr Downing) were the directors of the Company and also the directors of Fulcrum.

Further, the Directors, in their personal capacities, had a financial interest in the Fulcrum Funds because at all relevant times:

- Fulcrum held an aggregate 1% of the total interests in the Fulcrum Funds;
- Fulcrum was a wholly owned subsidiary of Fulcrum Capital Holdings Pty Limited (Fulcrum Holdings);
- 50% of the shares in Fulcrum Holdings were held by X10 Capital Pty Limited (X10). Mr Riley and Irene Riley held all of shares in X10; and
- The other 50% of the shares in Fulcrum Holdings were held by Merton Investments Pty Limited (Merton). Mr Downing and Virginia Downing held all of the shares in Merton.

I have not located any formal demand for repayment or other correspondence by which Fulcrum (as manager of the Fulcrum Funds) sought repayment of the Loans.

3.2. Conclusion

There is no apparent reason for the Loans to have been repaid at the time of the Transaction and no apparent benefit flowed to the Company, or the Group, as a result of doing so (for example, reduction of an interest expense or enabling further funding to be raised from another source). Rather, as discussed below, the Transaction caused the Company (and then the Group generally) significant difficulty.

I have reviewed the books and records of the Company, including the email records of the Directors, Larry Hamsom (the Chief Financial Officer of the Group) and Stephen Heath (the Chief Executive Officer), and concluded that:

- the Directors failed to consider the cash needs of the Company before the Transaction occurred. In particular, the Directors did not consider an updated cash flow forecast that took the Transaction into account;
- at the time of the Transaction, the Company was trading significantly below the existing forecast and generally performing poorly; and
- the Transaction caused the Group (including the Company) significant cash flow difficulties from which it did not recover.

The Directors had a personal financial interest (through the structure of their shareholdings and that of their wives set out on the prior page) in the Transaction. The Fulcrum Funds recovered payment of the Loan in circumstances where the Company and Fulcrum were (by the Directors) plainly aware of the Group's poor financial performance and, accordingly, aware that the Loan would likely not otherwise be recovered in full.

As a consequence, I believe that the Company has an arguable case against Mr Riley and Mr Downing.

3.3. Proposed settlement

In May 2015 I wrote to Mr Riley and Mr Downing outlining the basis of the Company's claim and invited them to make a without prejudice proposal to settle the claim on a commercial basis.

In July 2015 Mr Riley and Mr Downing responded, and have denied any liability whatsoever.

3.4. Next steps

The costs of running the case would be somewhere in excess of \$300,000 (and could be as much as \$500,000). Mr Riley and Mr Downing have asserted that they are largely assetless. I have conducted separate investigations which reached this same conclusion in relation to both Mr Riley and Mr Downing. I am concerned that any judgment which may be obtained (and any costs order) may not lead to any meaningful recovery.

I have considered the possibility of a claim against Fulcrum itself. My legal advice is that no such claim will be possible. I do not regard the matter as being suitable for litigation funding (because the benefit to the insolvent estate – beyond paying the funder and costs – is not clear).

It is my intention to discuss the next steps to be taken with the Committee of Inspection in the forthcoming months

4. Receipts and Payments

Below is a summary of the receipts and payments for the Company for the period 29 August 2014 to 28 August 2015:

Wooldridges Australia Pty. Limited (In Liquidation)

Liquidators' Summary of Receipts and Payments for the period 29 August 2014 to 28 August 2015

	Amount (\$) (Incl. GST)
Opening Cash	95,967
Receipts	
GST Control: GST Paid (Received)	10,719
Intercompany Loan - Wooldridges NSW	61
Interest Income	72
Voidable Unfair Preference Recoveries	62,350
Total Receipts	73,202
Payments	
Appointee Fees	(103,303)
Appointee Disbursements	(3,029)
Bank Charges	(70)
Document Storage	(8,844)
GST Control: GST Paid (Received)	(283)
Legal Fees	(36,305)
Total Payments	(151,834)
Net Receipts / (Payments)	(78,633)
Closing Cash	17,334

I note that the only recoveries in the liquidation for this period were voidable unfair preferences in the amount of \$62,350.

5. Actions to finalise

As at 28 August 2015, the following tasks were required to be completed prior to finalising the liquidation:

- Discuss with the Committee of Inspection the next steps in relation to the Fulcrum loan;
- Lodge a supplementary report with ASIC pursuant to Section 533(2) of the Act (per ASIC's request); and
- Obtain clearance from ASIC to proceed to finalise the liquidation.

6. Contact Details

Should you have any queries in relation to the above, please contact Brendan Campbell of our office on (02) 8297 2682 or brendan.campbell@au.gt.com.

Yours faithfully



Said Jahani
Joint and Several Liquidator